Newalta Oil & Gas Ltd.

ANNUAL REPORT 1985

Corporate Profile

Newalta is a diversified corporation with oil and gas interests in Canada and the U.S.A. and resource services activities in Canada.

The resource services division currently operates two central treating stations, at Namao and Red Earth, and is presently engaged in financing the construction of a third central treating station at Slave Lake and the purchase of a fourth plant at Edson, and is establishing a province wide network of water disposal wells.

The Company intends to further diversify its revenue stream during 1986 by commissioning several water disposal wells and constructing additional central treating stations and associated truck terminals.

Additional business opportunities, both inside and outside the energy sector, are continually under review as the Company pursues its objective to build a profitable, diversified corporation.

The Company's shares are listed on the Alberta Stock Exchange under the symbol NAL.

FINANCIAL HIGHLIGHTS

YEAR ENDING DECEMBER 31, 1985

Financial	**1985**	**1984**
Total revenues	$2,094,668	$653,109
Cash flow — from operations	$513,886	$137,178
— per share	9¢/share	4¢/share
Earnings (loss) from operations	$288,891	$(35,571)
— per share	5¢/share	(1¢/share)
Working capital deficiency	$495,684	$252,028
Long-term debt	$1,134,142	$1,073,912
Shareholders' equity	$1,569,158	$780,272
Total assets	$3,872,000	$2,636,000
Outstanding shares	7,333,492	4,230,086
Return on shareholder's equity	—	6½%
Long term debt as % of shareholders equity	72%	138%
Share price at December 31	45¢	75¢

Annual General Meeting

The Annual General Meeting of the Shareholders of Newalta Oil & Gas Ltd. will be held in the Calgary, Alberta offices of Bennett Jones, 3200 Shell Centre, 400 Fourth Avenue S.W., 30 May 1985 at 2:00 p.m.

Report to Shareholders

Your Board of Directors is pleased to present the Annual Report of Newalta Oil & Gas Ltd. for the year ending December 31, 1985.

As projected in the 1984 Annual Report, 1985 was a year of record growth for the Company.

Earnings from operations rose to $288,891 (5¢/share), an increase of 912% over the previous year. Cash flow from operations rose to $513,886 (9¢/share), an increase of 275% over the previous year. Gross revenue increased by 221% to $2,094,668 from $653,109.

In view of the current decline in oil prices and the uncertainty facing the oil and gas industry the Company has considered it prudent to take a write down in the value of its oil and gas reserves to the extent of $800,000. This write down was the dominant factor in the Company reporting a loss for the year of $511,109.

Generally, management and directors are satisfied with the performance of the Company during 1985, although cash flow was only 60% of budgeted figures of one year ago. This may be attributed primarily to the failure of a planned $2 mm convertible debenture offering. During the year the Company expended $2.1 mm on capital projects which included the expansion of the Red Earth and Namao central treating stations, the commissioning of two water disposal wells and the drilling of two oil wells on its Morinville property. Financing sources included cash flow, private placement funds and an increase in the Company's bank debt. Capital expenditures for 1986 are projected to be in excess of $2 mm and will be financed through the Company's cash flow and joint venture capital.

During 1986, management will continue to pursue its fundamental objective of enhancing the underlying asset value of the Company and increasing the competitive position of the Company in the resource services area. Plans are in place for further expansion of the resource services division and the Company will slowly increase its spending on oil and gas exploration and development through its participation in the Erewhon Joint Venture. Extenuating circumstances, such as the recent dramatic decline in oil prices, will force management to continually review its business plan and make the necessary changes in capital spending and business philosophy to allow the Company the opportunity to grow and prosper. It is clear that the successful energy corporation of the future will need to have a low debt to equity ratio to allow continued growth and expansion during fluctuations in oil and gas prices. Management plans to maintain the Company's long term debt to shareholders' equity ratio below the current 72%.

A total of 6,342,342 shares traded on the Alberta exchange during fiscal 1985. The highest trading price was 98¢ and the low was 35¢.

The recent and dramatic decline in oil prices has left the Canadian oil industry in a state of uncertainty. Although conscious of the challenges which lie ahead, management is confident that the Company is well placed to make the transition to an energy environment that will be based on lower prices for oil and gas and lower margins on resource services.

The Company acknowledges with appreciation the significant contribution of the management and staff to the progress achieved during 1985 and would like to thank the shareholders of the Company for their continued support.

Submitted on behalf of the Board of Directors.

O C Pinnell

Owen C. Pinnell
President

Calgary, Alberta
April 1986

Management

OWEN C. PINNELL, President/Director

Owen C. Pinnell, P. Eng. has worked continuously in the energy industry, since his graduation from the Auckland Technical Institute, New Zealand, in 1972.

From 1973 to 1975 he was with the Anglo American Corporation in Zambia, Central Africa. Subsequently Mr. Pinnell was retained by Technip in Paris, France, from 1975 to 1977. Following a one-year period in New Zealand, where he worked on the Maui offshore development, Mr. Pinnell moved to Canada in 1978, and after 3½ years with Dome Petroleum, started with a private company, which through merger, became Newalta Oil & Gas Ltd.

Left to right, R. Sifton, O.C. Pinnell, T.V. Bourbonnie

TERRY V. BOURBONNIE, Vice President/Director

Terry V. Bourbonnie, B.Sc., P.Eng., graduated from the University of Calgary in 1971 and since then has worked continuously in the oil and gas industry. From 1971 to 1975 he was with Gulf Oil Canada Ltd. in Stettler and Edmonton. Mr. Bourbonnie joined Dome Petroleum Ltd. in 1975 as a project manager in the NGL Department and from 1980 to 1983 he worked for Dome in Denver as Manager of NGL Project Development. In July 1983, he joined Canaco Resources, Inc. a wholly owned U.S. subsidiary of Newalta and in May of 1984 he relocated to Calgary with the Company.

RONALD L. SIFTON, Secretary Treasurer/Director

Ronald L. Sifton, C.A., graduated in 1973 with a Bachelor of Commerce degree from the University of Calgary, and was accepted as a Chartered Accountant in 1975 by the Institute of Chartered Accountants of Alberta. Following his articling requirements with Thorne Riddell, he has pursued a career in public accounting. Mr. Sifton joined Newalta in December 1983, and manages the Company's accounting and financial reporting systems.

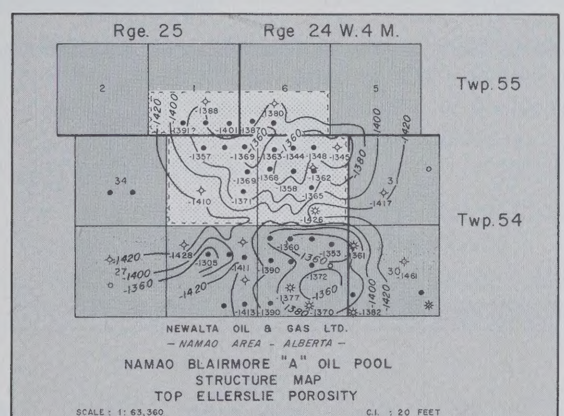
Oil and Gas Division

CANADA

Namao Blairmore 'A' Unit

Newalta has a 30.196% W.I. in gas and a 31.748% W.I. in oil in the Namao Blairmore 'A' Unit and is the operator of the property.

During 1985 gross production was 2168 m^3 of oil and 8972 10^3m^3 of gas from the Lower Cretaceous Ellerslie member, commonly known as the Basal Quartz. The Company estimates that there are at least eight 40 acre development locations to drill on this property. One development well is planned for 1986.



Morinville D3 Pool

The Company has a 1.23% working interest in three wells in the south half and northwest quarter of Section 32, T55 R25W4M. This property produced 13,079 m^3 of oil during 1985.

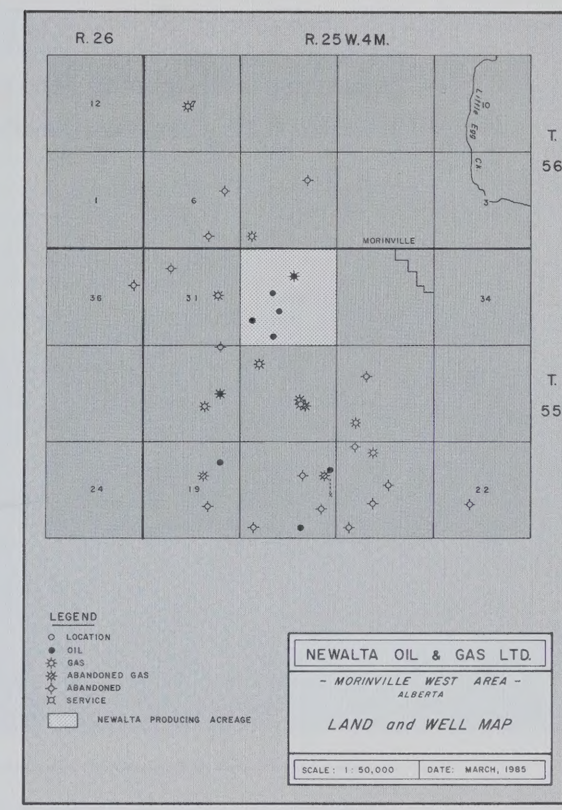
During the year two development wells were drilled and the property currently produces 350 bopd from the Leduc D3 formation.

Further development is planned for 1986.

Erewhon Joint Venture

In 1986, the Company signed an agreement with Erewhon Resources Ltd. of Calgary under the terms of which the Company will participate with Erewhon and others in an oil and gas exploration program in east central Alberta.

Management is impressed with the Erewhon exploration team, the sound scientific methodology it follows and the strong emphasis on geophysics. A high success rate is anticipated.



UNITED STATES

Morris County, Kansas

The Company has a 30⅝% working interest in the Rindt B prospect and a 53⅓% working interest in the Rindt A prospect in Morris Country, Kansas.

During 1985 these properties produced 3538 barrels of oil from the Pennsylvania's Basal Conglomerate.

The Company is not actively marketing these properties but would sell them if the right offer was received.

OPERATIONS AND ASSET EVALUATION

Operations — Exploration and Development

The following is a summary of wells drilled and participated in by the Company during 1985:

	1985		1985
Oil	2	Total net wells	.0246
Gas	—	Average interest per well	.0123
Dry	—	Weighted success	1.0000

The following table summarizes the number of producing wells in which the Company had interests in Canada at December 31.

	GAS			OIL		
	Gross	Net	Average Per Well	Gross	Net	Average Per Well
1985	1	.30478	.30478	10	1.88	.188

The Company's net oil and gas production for 1985 before royalties is summarized below.

	Total	Daily Average
Gas (MCF)	9,310	264 mcfd
Oil (Bbls.)	7,560	21 bopd

RESERVES SUMMARY

Oil and Natural Gas Reserves

	Oil 10^3m^3	Gas 10^6m^3	Value Undiscounted	10%	15%	20%
			Thousands of Dollars			
Canada						
Proven	5.8	32.9	2512	1221	932	740
Provable Additional	3.3	4.1	710	392	308	125
Total Canada	9.1	37.0	3222	1613	1240	865
United States						
Proven	5.7	—	437	285	222	198
Probable Additional	28.9	—	5113	2417	1698	1282
Total U.S.	34.6	—	5550	2702	1920	1480
Total Canada and United States (Proven and Probable)	43.7	37.0	8772	4315	3160	2345

Resource Services Division

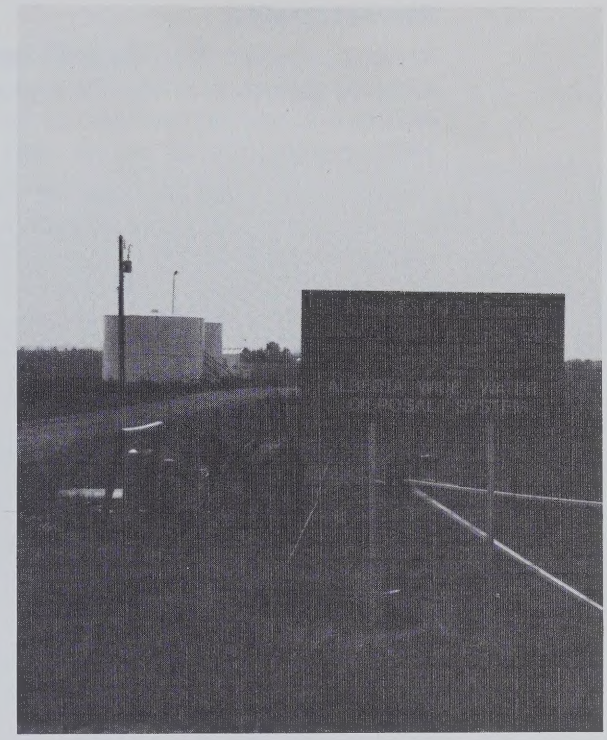
CENTRAL TREATING STATIONS AND WATER DISPOSAL WELLS

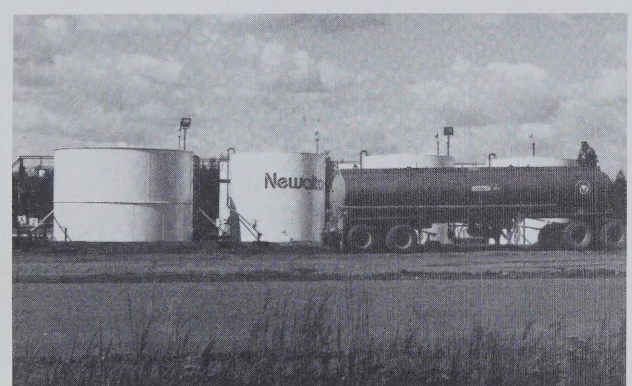
The Company spent in excess of $1 mm during 1985 on expansion projects at both its Red Earth and Namao Central Treating Stations. In Red Earth, a water disposal well, pipeline connection, additional treater and tanks were added. In Namao, additional tanks and transfer capability were added.

The Company has recently acquired an existing central treating station in the Edson area and will commence operations at this facility on 1 May 1986. This plant will be expanded and upgraded as demand dictates.

Funding is currently being put in place for a fourth central treating station to be built in the Slave Lake area. Charlton Securities of Calgary is assisting in the fund raising effort. The plant will be operational by August 1986.

The Company currently has nine (9) water disposal wells at different stages of acquisition and permitting and plans to commission at least four (4) of these wells during fiscal 1986.





Central Treating and Water Disposal

The Company operates central treating stations and water disposal wells in Alberta as follows:

Plant Location	Company Interest
Namao	49.076% W.I., plus 15% net override
Red Earth	100% W.I.
Edson	100% W.I.

Water Disposal Well	
Namao	31.478% W.I.
Morinville	49.076% W.I. plus 15% net override
Red Earth	100% W.I.

Financial Review

Revenue Analysis

Revenue received from oil and gas sales (net of royalties) plus revenue from the resource services division and other income was $2,094,668 for 1985, an increase of 221% over 1984.

Decreases in oil and gas revenues are a result of lower oil and gas prices at Namao and normal production declines. Oil and gas revenues are projected to stabilize or increase slightly during 1986 with continued development drilling in Morinville and Namao and the anticipated new production from discoveries in the Erewhon joint venture.

Oil production averaged 21 bpd for 1985 with gas production averaging 264 mcf/day.

The most significant effect on revenues during 1985 came from increased activity in the Company's resource services division. It is anticipated that projects planned for 1986 will increase revenue from this division to in excess of $3½ mm for the year ending December 31, 1986.

Expense Analysis

Operating costs for oil and gas properties increased from 25% of oil and gas revenue in 1984 to 45% of oil and gas revenue in 1985. This increase is a direct result of increased costs for operating the Company's low productivity wells in Namao and declining production on the same property.

Costs related to the operation of the Company's resource services division were 62% of gross revenues generated during the period. These high operating costs are related to startup problems at Red Earth, high trucking costs and water disposal charges. As the Company now has a pipeline connection and its own disposal well in Red Earth, these costs are projected to drop to less than 40% of gross revenues during 1986.

General and administrative costs grew during the year but, as a percentage of gross revenue, decreased from 36% in 1984 to 12.6% for 1985. Further decreases are projected for 1986, these being related to economies of scale and increased efficiency.

Capital Expenditures

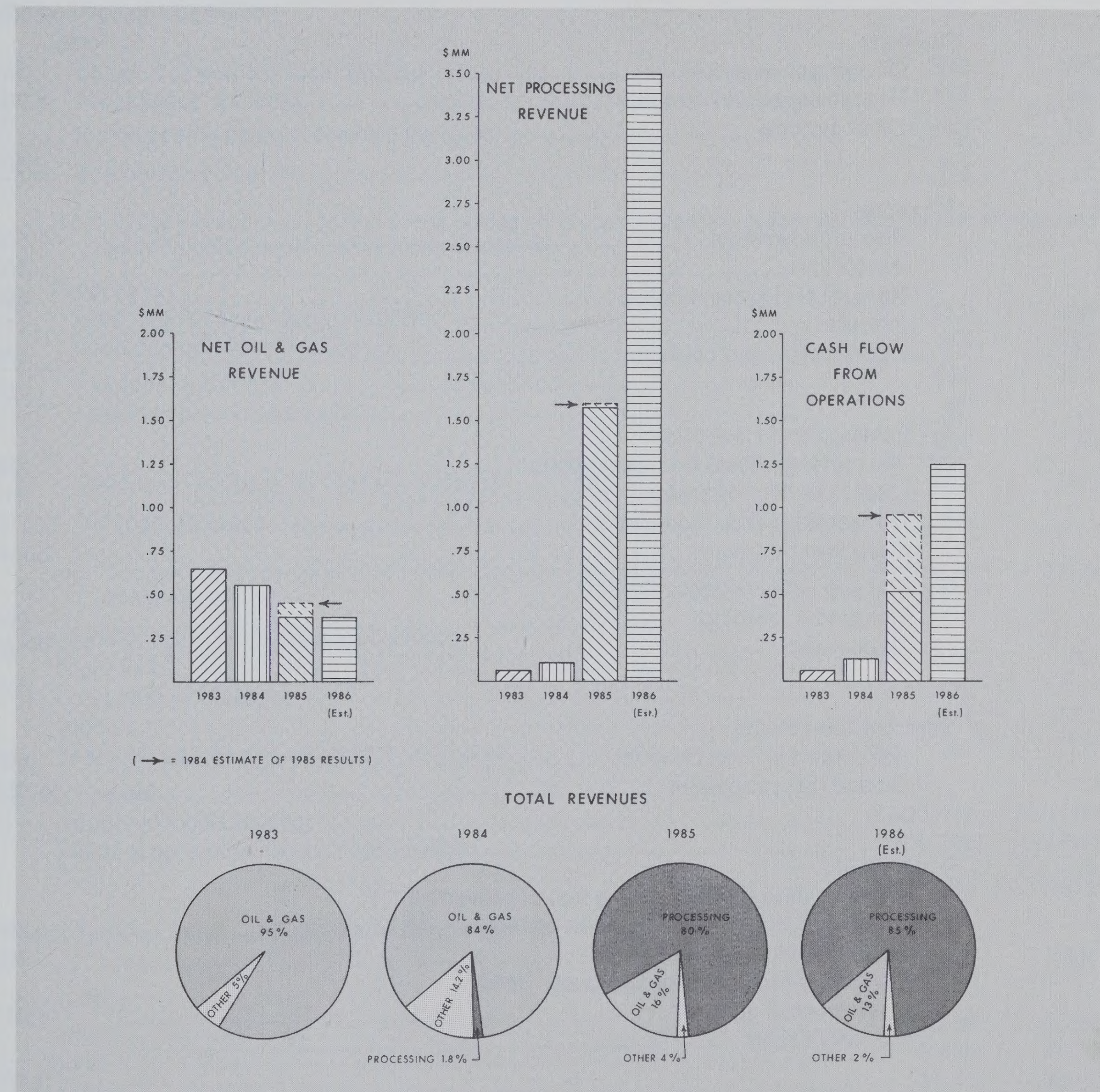
The Company spent $2,113,509 during 1985. Of this total, 88% or $1,862,975 was expended on resource services activities (central treating stations and disposal wells) and $250,534 or 12% was spent on oil and gas properties and development.

These expenditures were funded by: additional bank borrowings, $450,000 or 21%; issuing of shares, $1,303,060 or 62%; and the balance, $360,449 from sale of properties and working capital.

Depreciation and depletion increased from $172,749 in 1984 to $224,995 in 1985. These non-cash items are added back to earnings to arrive at cash flow from operations.

Because of falling prices for oil and gas, and the fact that certain of the Company's U.S. reserves are now marginal to produce, the Company has written off $800,000 from its U.S. reserve base.

Revenue Summary



Supplementary Financial Information

UNAUDITED

	1985 ($ 000)	1984 ($ 000)
Revenue		
Oil and gas revenue	337	550
Resource services revenue	1,685	12
Other income	73	91
	2,095	653
Expenses		
Resource services	1,052	14
Production	152	138
General and administrative	264	235
Interest	113	129
Depreciation and depletion	225	173
	1,806	689
Net Earnings and Cash Flow		
Net earnings (loss) from operations	289	(36)
Cash flow from operations	514	137
Net earnings (loss) per share	($0.09)	$0.01
Cash flow per share	$0.09	$0.04
General and Administrative Costs		
Charged to earnings	264	235
Capitalized	82	—
	346	235
Capital Expenditures		
Resource services division	1,863	297
Oil and gas properties	251	291
	2,114	588
Asset Values		
Present value (before income tax) of proven oil and gas reserves, discounted at 15%	1,154	1,339
Undeveloped acreage	300	50
Central treating stations and water wells, discounted at 15%	4,041	356
Working capital	—	—
	5,495	1,745
Working capital deficiency	496	252
Long term obligations	1,134	1,074
Net asset value	3,865	419
Net asset value per share	$0.53	$0.10

Supplementary Financial Information continued

	1985 ($ 000)	1984 ($ 000)
Times Interest Coverage		
Earnings		
Earnings (loss) from operations	289	(36)
Add interest expense	113	129
Earnings available for finance charges	402	93
Interest coverage (1)	3.6	.7

(1) Earnings interest coverage is the interest expense on long term obligations, divided into the sum of the earnings from operations before income taxes and interest expense.

	1985 ($ 000)	1984 ($ 000)
Cash Flow		
Cash flow before interest expense	627	266
Less current interest expense	113	129
Reported cash flow	514	137
Less capitalized overhead	82	—
	432	137
Cash flow available for finance charges	545	266
Interest coverage (1)	4.8	2.1

(1) Cash flow interest coverage is the interest expense on long term obligations divided into available cash flow before interest expense.

	1985	1984
Cash Flow to Long Term Debt Obligations		
Cash flow	514	137
Long term obligations	1,134	1,074
Ratio	.45:1	.13:1
Years of cash flow to repay long term debt	2.2	7.8
Share Capital		
Issued and outstanding	7,333,492	4,230,086
Reserve for stock options (1985-1990)	700,000	420,000
	8,033,492	4,650,086

Stock Trading Data — Alberta Stock Exchange

	1985	1984
Share Price		
High	$0.98	$0.80
Low	$0.35	$0.41
Close	$0.45	$0.75
Shares traded (000's)	6,342	2,102

Auditors' Report

The Shareholders
Newalta Oil & Gas Ltd.

We have examined the consolidated balance sheet of Newalta Oil & Gas Ltd. as at December 31, 1985 and the consolidated statements of operations and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co

Calgary, Alberta
March 7, 1986

Chartered Accountants

Consolidated Balance Sheet

AS AT DECEMBER 31, 1985

ASSETS

	1985	1984
Current		
Cash and term deposits	$ 300	$ 109,333
Accounts receivable (Note 4)	667,081	265,647
Deposits and prepaid expenses	6,111	5,140
	673,492	380,120
Investment in affiliated companies	1	50,459
Processing equipment (Notes 2 and 4)	2,057,480	305,818
Oil and gas properties and equipment (Notes 3 and 4)	1,141,503	1,899,935
	$3,872,476	$2,636,332

LIABILITIES

	1985	1984
Current		
Accounts payable	$ 954,776	$ 528,648
Current portion of long-term debt (Note 4)	214,400	103,500
	1,169,176	632,148
Long-term debt (Note 4)	1,134,142	1,073,912
Debenture payable	—	150,000
	2,303,318	1,856,060

SHAREHOLDERS' EQUITY

	1985	1984
Share capital (Note 5)	2,046,071	746,076
Retained earnings (deficit) (Note 5)	(476,913)	34,196
	1,569,158	780,272
	$3,872,476	$2,636,332

Signed on behalf of the Board

O. Connell Director

W. Bourbonnais Director

Consolidated Statement of Operations and Retained Earnings

FOR THE YEAR ENDED DECEMBER 31, 1985

	1985	1984
Revenue		
Resource services	$1,684,717	$ 11,899
Oil and gas sales, net of royalties and revenue taxes	336,663	549,906
Other	73,288	91,304
	2,094,668	653,109
Expenses		
Resource services	1,052,092	14,016
General and administration	264,188	235,405
Operating	151,828	137,626
Interest	112,674	128,884
Depreciation and depletion	224,995	172,749
	1,805,777	688,680
Earnings (loss) from operations before undernoted item	288,891	(35,571)
Write-down in carrying value of oil and gas properties (Note 3)	(800,000)	—
Loss for the year before extraordinary item	(511,109)	(35,571)
Extraordinary item		
Gain on wind-up of subsidiary company	—	69,767
Earnings (loss) for the year	(511,109)	34,196
Retained earnings (deficit) at beginning of year	34,196	(6,500,986)
Written-off to share capital (Note 5)	—	6,500,986
Retained earnings (deficit) at end of year	$ (476,913)	$ 34,196
Earnings (loss) per share		
(Loss) before extraordinary item	$(.09)	$(.01)
Earnings (loss) for the year	$(.09)	$ .01

Consolidated Statement of Changes in Financial Position

FOR THE YEAR ENDED DECEMBER 31, 1985

	1985	1984
Sources of working capital		
From operations		
(Loss) for the year before extraordinary item	$ (511,109)	$ (35,571)
Add (deduct) items not affecting working capital		
Depreciation and depletion	224,995	173,518
Gain on disposal and abandonment of oil and gas properties	—	(769)
Write-down in carrying value of oil and gas properties	800,000	—
Working capital provided from operations	513,886	137,178
Issuance of shares (Note 5)	1,303,060	474,240
Proceeds from long-term debt	450,000	335,000
Proceeds on sale of oil and gas properties	95,284	9,240
Issuance of debenture	—	150,000
Gain on wind-up of subsidiary company	—	69,767
Decrease in current portion of long-term debt	—	76,500
Decrease in investment in affiliated companies	50,458	—
	2,412,688	1,251,925
Applications of working capital		
Additions to oil and gas properties and equipment, net		
By cash	24,784	287,271
By issue of shares	225,750	4,000
Additions to fixed assets		
By cash	8,534	2,453
Additions to processing equipment		
By cash	1,363,041	294,356
By issue of shares	491,400	—
Reduction of long-term debt	278,870	128,087
Reduction of debenture payable	150,000	—
Reduction in and reclassification of joint venture liability	—	302,500
Increase in investment in affiliated companies	—	50,458
Increase in current portion of long-term debt	110,900	—
Repurchase of shares	3,065	—
	2,656,344	1,069,125
Increase (decrease) in working capital deficiency	243,656	(182,800)
Working capital deficiency at beginning of year	252,028	434,828
Working capital deficiency at end of year	$ 495,684	$ 252,028
Cash flow per share	$.09	$.04

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 1985

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Nargis Petroleums Ltd. and Canaco Resources Inc. (collectively called for the purpose of these notes "the Company").

The Company's interests in affiliated companies are accounted for on an equity basis.

b) Processing equipment

Processing equipment is stated at cost. Cost includes all direct project and equipping costs plus related overhead during construction.

Depreciation of processing equipment is provided by the declining balance method at an annual rate of 10%.

c) Oil and gas properties and equipment

The Company follows the full-cost method of accounting whereby costs relating to the acquisition, exploration and development of oil and gas reserves are capitalized.

Separate cost centres have been established for Canada and the United States.

Proceeds from disposal of properties will normally be deducted from costs without recognition of gain or loss.

Depletion of properties and depreciation of production equipment is provided by the unit of production method based on estimated proven reserves.

d) Earnings (loss) per share

The earnings (loss) per share has been calculated using the weighted average number of shares outstanding during the year.

2. PROCESSING EQUIPMENT

The Company currently holds various interests in two central treating stations in Alberta as follows:

	1985	1984
Cost	$2,180,479	$317,504
Less accumulated depreciation	122,999	$ 11,686
	$2,057,480	$305,818

During 1985 the Company capitalized $82,161 in construction overhead.

3. OIL AND GAS PROPERTIES AND EQUIPMENT

	1985	1984
Oil and gas properties and development costs	$1,584,613	$2,241,808
Production equipment	168,569	156,124
	1,753,182	2,397,932
Less accumulated depreciation and depletion	611,679	497,997
	$1,141,503	$1,899,935

The Company capitalizes petroleum and natural gas properties at cost to the extent that they do not exceed the present value of future net revenues from estimated production of proved reserves plus the lower of cost and estimated fair value of non-producing properties and tangible well equipment (the "cost limitation"). Accordingly, the carrying value of the Company's petroleum and natural gas properties in the United States was written down by $800,000 Canadian in 1985.

4. LONG-TERM DEBT

	1985	1984
Bank production loan repayable at prime plus 1½%, in monthly installments of $20,000	$ 686,412	$ 902,412
Bank term loan repayable at prime plus 1½%, in monthly installments of $13,700	269,900	—
Accounts payable to be paid out of proceeds from future bank term loan	345,000	275,000
Other	47,230	—
	1,348,542	1,177,412
Less current portion	214,400	103,500
	$1,134,142	$1,073,912

The bank loans are secured by a general assignment of accounts receivable, an assignment of working interests and revenues in oil and gas properties, and a fixed and floating charge debenture for $2,000,000 having a first fixed charge against a processing plant and a floating charge on all other assets of the Company.

$50,000 of the bank production loan has been classified as a current liability. The balance of the production loan is anticipated to be repaid out of future oil and gas sales and has accordingly not been included as a current liability.

Maturities of long-term debt in the years 1987, 1988 and 1989 are $404,400, $370,812 and $121,700 respectively.

5. SHARE CAPITAL

a) **Authorized**

50,000,000 common shares without nominal or par value.

b) **Issued**

Details of shares issued are as follows:

	Shares	Amount
Issued, December 31, 1983	8,772,332	$6,772,822
Reduction of shares and share capital on rollback of shares (See Notes 5(f) and (g))	7,017,866	6,500,986
	1,754,466	271,836
Net proceeds from private placement	1,776,900	329,880
Share options exercised, net of share option receivable of $28,000	320,000	36,000
Issued for oil and gas properties	20,000	4,000
Issued for cash	108,720	54,360
Conversion of debenture	250,000	50,000
Issued, December 31, 1984	4,230,086	746,076
Net proceeds from private placement	1,253,496	409,410
Conversion of debenture, net of commission of $7,500	750,000	142,500
Issued for processing equipment	702,000	491,400
Issued for oil and gas properties	451,500	225,750
Issued for service rendered	10,910	6,000
Escrow shares cancelled	(56,000)	—
Shares repurchased and cancelled	(8,500)	(3,065)
Share options receivable previously exercised	—	28,000
Issued, December 31, 1985	7,333,492	$2,046,071

c) **Shares reserved**

Pursuant to a management, directors' and employees' stock option plan approved by the Board of Directors on August 19, 1985, 700,000 shares of the Company are reserved for issue at a price of $0.35 per share. As at December 31, 1985, 675,000 options were outstanding with an expiry date of August 19, 1989.

d) **Escrow shares**

The Company has 84,000 shares under escrow as at December 31, 1985 and has made application to the Alberta Securities Commission to have these shares cancelled.

e) **Normal course issuers bid**

Pursuant to a resolution by the Board of Directors on November 13, 1985, the Company may repurchase prior to December 11, 1986, 476,000 common shares of the Company. Any common shares repurchased will be cancelled and reinstated as authorized and unissued capital stock. At December 31, 1985, 8,500 shares costing $3,065 had been repurchased.

f) **Elimination of deficit**

Effective January 1, 1984, by special resolution of the shareholders, deficit at that date of $6,500,986 was applied against the issued share capital.

g) **Reverse stock split**

On March 8, 1984 by special resolution of the shareholders the outstanding share capital was rolled back on the basis of 1 share for each 5 issued and fully paid.

6. SEGMENTED INFORMATION

The Company operates in two countries, the identifiable segment assets are as set out below:

	1985	1984
Canada	$3,802,809	$1,643,267
United States	69,667	993,065
	$3,872,476	$2,636,332

The Company derives its revenue from the following locations:

	1985		1984	
	Revenue	Earnings (loss)	Revenue	Earnings (loss)
Canada	$2,007,659	$ 244,177	$517,722	$ 73,642
United States	87,009	(755,286)	135,387	(39,446)
	$2,094,668	$(511,109)	$653,109	$ 34,196

7. RELATED PARTY TRANSACTIONS

a) Certain officers and directors of the Company hold working interests in various Company properties and will continue to participate with the Company in new prospects subject to disclosure to the Board of Directors.

b) On February 15, 1985, the Company purchased an additional 30% interest in an oil processing and water disposal plant from three directors of the Company. Consideration consisted of 702,000 shares of the Company at $0.70 per share totalling $491,400 and assumption of $73,195 of related debt.

c) On September 3, 1985, the Company purchased certain oil and gas properties from three directors of the Company. Consideration consisted of 451,500 shares of the Company at $0.50 per share totalling $225,750.

8. SUBSEQUENT EVENTS

Shares repurchased

Since December 31, 1985, the Company has repurchased 53,500 of its common shares at a total cost of $17,184.

Corporate Information

Board of Directors

Owen C. Pinnell	—	Calgary Alberta
Terry Bourbonnie	—	Calgary, Alberta
A.L. Bertram	—	Vulcan, Alberta
R.L. Sifton	—	Calgary, Alberta
R.B. McGinnis	—	Calgary, Alberta

Officers & Management

Owen C. Pinnell	—	President
Terry Bourbonnie	—	Vice President
Ronald Sifton	—	Secretary Treasurer

Head Office

1910, 500 Fourth Avenue S.W.
Calgary, Alberta
T2P 2V6
(403) 266-6556

Stock Exchange

Alberta, Symbol: NAL

Transfer Agent and Registrar

The Canada Trust Company
505 Third Street S.W.
Calgary, Alberta
T2P 3Y8

Auditors

Touche Ross & Co.
3500, 700 Second Street S.W.
Calgary, Alberta
T2P 0S7

Bank

The Royal Bank of Canada
339 Eighth Avenue S.W.
Calgary, Alberta
T2P 3N4

Legal Counsel

Bennett Jones
3100, 400 Fourth Avenue S.W.
Calgary, Alberta
T2P 0X9

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